

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /101 W

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FM AMCONSUL MILAN

TO AMEMBASSY ROME

INFO SECSTATE WASHDC 4832

UNCLAS MILAN 1644

E.O. 11652: N/A

TAGS: ETRD, EFIN, IT

SUBJECT: IMPACT OF PRIOR DEPOSIT SCHEME

REF ROME 11315

1. SUMMARY: OVERALL EFFECT OF PRIOR DEPOSIT SCHEME AS VIEWED  
FROM MILAN SIMPLY ONE OF HIGHER COSTS AND LOWER PROFIT MARGINS  
WITH NEGLIGIBLE IMPACT ON VOLUME OF IMPORTS. ONE SECTOR,  
HOWEVER, WHICH HAS BEEN AFFECTED NEGATIVELY IS CAPITAL GOODS,  
WHERE COST OF FINANCING DEPOSITS IS PROHIBITIVE. MILAN CHAMBER  
OF COMMERCE ESTIMATES COST OF IMPORTED RAW MATERIALS HAS RISEN  
5 PERCENT DUE TO DEPOSIT REQUIREMENT. EXPORTERS INTO ITALY  
USING VARIOUS APPROACHES TO OFFSET PRIOR DEPOSIT EFFECTS.  
END SUMMARY.

2. CONGEN CONTACTED ECONOMIC RESEARCH OFFICE OF MILAN CHAMBER  
OF COMMERCE WHICH HAS DONE STUDY ON EFFECTS OF SCHEME, IN  
ADDITION TO AMERICAN CHAMBER OF COMMERCE IN ITALY, TRADE  
ASSOCIATIONS AND INDIVIDUAL IMPORTERS OF BOTH  
INDUSTRIAL AND CONSUMER GOODS. GENERAL CONCLUSIONS  
FOLLOW.

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3. DECLINE OF IMPORTS FROM US DUE MORE TO DEVALUATION OF

LIRA THAN TO DEPOSIT REQUIREMENT, OUR SOURCES SAY. SMALL IMPORTERS ARE SUFFERING MORE THAN LARGE IMPORTERS BECAUSE OF NEED TO FINANCE DEPOSITS WITH BANK LOANS AT HIGH INTEREST RATES. IMPORTS OF SOME INDUSTRIAL MATERIALS FELL DURING SPRING BECAUSE OF ANXIETY OF INDUSTRIALISTS OVER NATIONAL ELECTIONS. FOREIGN FIRMS WHICH HAVE ITALIAN MARKETING SUBSIDIARIES ARE LETTING THEM PUT UP DEPOSITS AND IN SOME CASES ABSORB RESULTANT COSTS SO THAT ITALIAN BUYERS FEEL NO EFFECT. MAJOR AMERICAN CHEMICAL FIRM RECKONS PROFIT MARGIN OF ITS ITALIAN SUBSIDIARY DIMINISHED 2.5 PERCENT USING THAT APPROACH. ACCORDING TO BUYER FOR NATIONAL DEPARTMENT STORE CHAIN, IMPORTED MERCHANDISE IN GENERAL IS BEING BROUGHT IN IN SAME VOLUME AS LAST YEAR. CHAIN PURCHASES OF U.S. HAVE INCREASED THIS YEAR DUE TO SUPERIOR QUALITY AND COMPETITIVE PRICES. FIRM RAISES PRICES OF IMPORTED GOODS IN ORDER TO PASS ON COST OF DEPOSITS TO FINAL CONSUMER.

4. ALTHOUGH, IN GENERAL, IMPORTS OF CONSUMER GOODS DO NOT SEEM TO HAVE SLOWED DOWN, POTENTIAL BUYERS OF MAJOR CAPITAL GOODS ARE SENDING TO POSTPONE PURCHASES BECAUSE OF COST OF PUTTING UP DEPOSIT. RATIONALIZATION AND EXPANSION OF PRODUCTIVE CAPACITY THUS BEING HURT BY SCHEME, WHILE PURCHASES OF CONSUMER GOODS HAVE NOT DROPPED.

5. VARIOUS EXPORTERS ARE OFFSETTING COST OF DEPOSITS FOR ITALIAN CUSTOMERS AND THEREBY MAINTAINING OR INCREASING SHARE OF ITALIAN MARKET BY EITHER 1) HAVING THEIR ITALIAN SUBSIDIARY PUT UP DEPOSIT AS OPPOSED TO ITALIAN IMPORTER, 2) DISCOUNTING PRICES, OR 3) GRANTING MORE LIBERAL CREDIT TERMS. SOME EUROPEAN AUTOMOBILE SUPPLIERS REPORTEDLY ARE DISCOUNTING PRICES A FEW HAVE ITALIAN MARKETING SUBSIDIARIES WHICH ABSORB COST OF THE REQUIRED DEPOSITS. PARSONS

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**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
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